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Senator Jill N. Tokuda, Chair
Senator Donovan M. Dela Cruz, Vice Chair
Senate Committee on Housing

Comments and Support of SB 2833, SD1 Relating to the Low-Income Housing Tax Credit. (Increases funding for affordable rental housing development by making the state low-income housing tax credit more valuable. Reduces state tax credit period from ten to five years.)

WAM Hearing: Monday, February 29, 2016, 9:15 p.m., in Conf. Room 211

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

LURF appreciates the opportunity to **strongly support SB 2833, SD1.**

SB 2833, SD1. The purpose of this bill is to increase the value, and therefore the amount of equity generated by State Low-Income Housing Tax Credits (LIHTCs), by shortening the term over which the credits are taken from ten years to five years. SB 2833. SD1 is sponsored by the State Department of Business, Economic Development, and Tourism (DBEDT), and is part of the Governor's Legislative Package

LURF's Position and Comments. The shortage of housing and rentals is because it is very challenging to build housing in Hawaii. Since the 1970's, LURF members have built a majority of the affordable and market housing in Hawaii, despite several cycles of economic downturns, stock market crashes, health epidemics, overseas wars, world-wide terrorism, natural disasters, *Not-In-My-Back Yard* and anti-development opposition and lawsuits, growing costs of construction materials and labor, and increasing government mandates, duplicative regulatory processes, requirements, obstacles and barriers. In its testimony relating to this bill, even the Tax Foundation of Hawaii made the following observation regarding the reasons for the high cost of housing in Hawaii:

> *"...apparently public officials still have not recognized that one of the greatest contributors to the cost of housing in Hawaii is the draconian maze of permitting and regulatory processes in order to bring those homes to market. While those regulatory guidelines are to insure the health and safety of the public, streamlining the process would accelerate the time needed to secure those permits thereby reducing the cost of financing. This savings would go a long way toward reducing the final cost of the house to the consumer. For example, for one housing project on Kauai, it took nearly five years to secure the necessary permits to build 14 affordable homes."*

Nevertheless, the LIHTC program continues to be a powerful financing tool for affordable rental housing development. The LIHTC program promotes the development and rehabilitation of low-income rental housing at or below 60 percent of the area median income (AMI), as determined by the U.S. Department of Housing and Urban Development (HUD).

The State LIHTC is tied to the Federal LIHTC program, and the state credit is equal to 50 percent of the federal credit. LIHTCs are currently taken over a ten-year period by the project owner. The credit is available only on the portion of the project that is set-aside for low-income tenants and may be kept by the owner-developer, or sold to qualified investors/partners to raise equity for the development of the project. LURF understands that the federal LIHTCs are generally worth up to 95 percent of their face value when sold to investors. However, because of the limited market for state credits, owner-developers are getting only approximately 40 cents on the dollar for the State LIHTCs.

The proposed changes to the State LIHTC should improve their value, and provide more equity to finance the development of affordable rental housing units. Shortening the period over which State LIHTCs are taken from ten years to five years would increase the present value of the credits when sold to investors. Increasing the value of the State LIHTCs would generate more equity to finance the development of affordable rental housing projects, and make such projects easier to develop.

For the reasons set forth above, LURF is **in strong support of SB 2833, SD1**, and respectfully urges your favorable consideration of this bill.

Thank you for the opportunity to present testimony regarding this measure.